MICROENTERPRISE INNOVATION PROJECT - MICROSERVE

Contract No. PCE-0406-I-00-5034-00
Delivery Order No. PCE-802-95-00034-00

DESIGN OF A MICROFINANCE ACTIVITY
USAID/MALI

Submitted to:
Roger Bloom, Cognizant Technical Officer
Sustainable Economic Growth Office
U.S. Agency for International Development
Bamako, Mali

Submitted by:
Chemonics International Inc.

July 22, 1999

TABLE OF CONTENTS

ACRONYMS

ACOD	Association Conseil pour le Développement
AFD	Groupe Agence Française de Développement
APROFA	Agence pour la Promotion des Filières Agricoles
BAD	ADB African Develpment Bank
BCEAO	Banque Centrale des Etats de l'Afrique de l'Ouest
BIM	Banque Internationale pour le Mali
BDM	Banque de Développement du Mali
BNDA	Banque Nationale de Développement Agricole
BOAD	Bank of Africa
CAS-SMEC	Cellule d'Appui et de Suivi aux Systèmes Mutualistes d'Epargne et de Crédit au Ministère de Finances et du Commerce
CFD	Caisse Française de Développement
CGAP	Consulative Group
CIDR	Centre International de Développement et de Recherche
CLUSA	Cooperative League of the USA
CMDT	Compagnie Malienne des Textiles
COVEC	Comité Villageois d'Epargne et de Crédit
CVECA	Caisse Villageoise d'Epargne et de Crédit Autogérée
FFH	Freedom from Hunger
FI	Financial Institution
GGLS	Group Guaranteed Lending Scheme
GREC	Groupement Ruraux d'Eparge et de Crédit
GRM	Government of the Republic of Mali
GTZ	DGTZ - German Agency for International Development
IR	Intermediate Result
LOE	Level of Effort
MFI	Microfinance Institution
NGO	Non Governmental Organisation
PARMEC	Projet d'Appui à la Réglementation sur les Mutuelles d'Epargne et de Crédit
PEOW	Promoting Economic Activity for Women (Jigiya So)
PIEC	Programme Institutionnel d'Epargne et de Crédit (World Ed)
PME/PMI	Petits et Moyennes Entpreprises/Industries
PSC	Personal Services Contractor
PVO	Private Voluntary Organisation
SAVE	Save the Children
SEG	Sustainable Economic Growth
SO	Strategic Objective
TO	Task Order
UCOVEC	Union des Comités Villageois d'Epargne et de Crédit
UEMOA	Union Economique et Monétaire Ouest Africaine
UNDP	United Nations Development Program

SECTION I

Introduction

USAID/Mali is seeking to significantly expand the range of its interventions in the microenterprise sector in order to promote overall sustainable economic growth. More specifically, these initiatives will include creating a sound policy environment, increasing the rate of domestic savings mobilization, increasing commercial bank lending to microfinance institutions (MFIs) and improving the operational and financial self-sufficiency of these financial intermediaries. Activities are expected to include improving the microfinance regulatory and policy environment, basic institutional strengthening, developing mechanisms to extend credit to the poor, and training of microfinance practitioners of appropriate institutions. The Mission's overall approach will be based upon its own strategy plan, the National Strategy for Microfinance of the Government of the Republic of Mali (GRM) as well as the programs of other donors operating in the target sector. Every effort will be made to collaborate with other stakeholders and leverage available resources.

Under the MicroServe IQC, USAID/Mali contracted Chemonics International to design a comprehensive microfinance program and implementation plan based on both USAID/Mali's strategic plan and the National Strategy. The program will be part of the Financial Services Results Package of the Sustainable Economic Growth (SEG) Strategic Objective (SO). The main responsibilities of the consultants in conducting this assignment were to:

- Review and analyze ongoing microfinance interventions and recommend types of support
- Analyze the political and legal constraints to microfinance and make recommendations
- Analyze the capacity of support institutions and recommend ways to strengthen them
- Recommend linkages between microfinance activities and other Strategic Objectives
- Recommend an implementation plan for these interventions

The Terms of Reference may be found in Annex A.

Field work was conducted between January 22 and February 20, 1999, by Barbara Skapa and Jill Donahue. Prior to their departure for Mali, the team met with the Chemonics MicroServe Technical Advisor, Judith Beckwith and the Chemonics MicroServe Project Manager, Melissa Gentry in Washington D.C. for a technical briefing. Field work consisted of a literature and document review, work planning with the Mission, weekly briefings with the SEG team and other USAID staff, meetings with various donors and GRM officials, field trips to Koutiala/Segou and Kati Cercle, a final briefing and the submission of a first draft of the report. The team also met with the Chemonics/SEG project team to ensure that its proposals complement and enhance SEG activities. The present revised final report incorporates comments made by both USAID/Mali and the Global Bureau on the original draft.

The team would like to thank the USAID/Mali staff and the SEG Unit for the assistance provided during this assignment. The participation of Ms. Anicca Jansen of the office of Microenterprise Development of USAID/Washington during its first week was most helpful. A list of the persons and institutions consulted is annexed to this report.

In Section II of the Report, the context for microfinance in Mali is discussed and the analysis touches upon the institutions servicing the sector, the legal and regulatory environment governing microfinance as well as the GRM's National Strategy and other donor interventions. In this section constraints and opportunities for future work in the microfinance sector are identified. On the basis of this analysis, a proposal for future USAID/Mali interventions is presented in Section III.

SECTION II

Microfinance in Mali — the Context

A. Basic Statistics and the Informal Sector

In 1995, the population of Mali reached 9.8 million people and growth continues at 2.7 percent per annum. With an annual per capita income just under $300, Malians are amongst the poorest people in the world. Among Sub-Saharan Africans, Malian infants suffer from one of the highest mortality rates and life expectancy is only 48 years. Basic health services are not widespread; only one in five Malians has access to potable water. Basic primary schooling is provided to an estimated 32 percent of the children, but for girls this rate drops to 26 percent. The adult illiteracy rate remains high at 68 percent.

Despite these statistics, economic and political reforms introduced in the past decade have had positive results. In 1991, a democratic government returned to Mali and initiated a process of decentralization and increased participation by civil society. Mali has been able to allay the worst consequences of structural adjustment and the devaluation of the CFA Franc in 1994. Liberalization of the agriculture sector and positive pricing mechanisms for key cash crops have resulted in profits for farmers. This has created demand for financial services, particularly access to credit for investment in farm and off-farm activities.

At present some 80 percent of the population lives in regions highly dependent upon agriculture, even though only one fourth of the land mass is arable. The industrial sector is small and does not generate adequate employment. According to World Bank estimates, in 1995, the informal sector accounted for 20 to 25 percent of GDP, and it continues to grow: between 80-90 percent of the active population is employed in informal activities. In urban areas such as Segou, Sikasso, and Bamako, construction work, mechanical repairs and metalwork account for a large percentage of microenterprise operations, in addition to "agribusiness" operations, such as production of cotton goods. In rural areas the nature and extent of microeconomic activity varies with the season. In some cases, off-season revenues are generated by black smithing, gathering of fuelwood and hayfeed, weaving, tailoring and transformation of agricultural and/or natural resource products. In the central and northern regions in Mali, the non-agricultural activities are very important since they are not seasonal in nature.

Women constitute 38 percent of the self-employed. That figure is higher in Bamako where 68 percent of the adult females participate in the informal economy. That said, gender bias is prevalent. Women must still obtain written permission from husbands to obtain a travel visa or to open a formal business. Commercial banks lending requirements also reflect gender bias. For example, a husband or other male must co-sign a loan for a female borrower.

B. The Financial Sector

Generally speaking, financial intermediation in Mali is still relatively weak and the capital market non-existent. The financial sector is composed of three institutional groupings: the commercial banks and finance companies (numbering 7 and 2 entities respectively), non-bank financial institutions (NBFIs) which refer strictly to insurance companies, pension funds and the like, and the *système financier décentralisé,* or SFDs, the equivalent of MFIs.

B1. The Informal Financial Sector

The last decade has witnessed a fairly rapid expansion of MFIs across the country, a trend directly linked to the change of government, economic reform and liberalization and donor activity involving small-scale savings and loan programs (particularly France and Canada). By 1996, the 24 largest MFIs serviced 160,000 clients, or 1.6 percent of the population of Mali. They project extending their operations to 558,000 clients by 2001. For the three-year period ending December, 1997, deposits had increased 213 percent to 5.6 billion CFA while credit transactions had grown by 310 percent or 9.9 billion CFA. In 1997, 2.7 billion CFA of total credit extended was obtained through financing arrangements and of this amount, 1.88 billion CFA was obtained from the BNDA and the BIM.

MFIs in Mali fall into three institutional types: Solidarity Groups, Village Banks and Credit Unions. The approach used for solidarity groups (le crédit solidaire) is based upon the Grameen model in which lending is information-based rather than asset-based: small loans are extended to small groups with access to future credit tied to loan repayment. In some cases, loans are partially or fully backed by savings but the repayment pattern rests upon peer pressure. This form of financing is attractive to Malian women as they resemble the familiar *tontines* (Rotating Savings and Credit Associations or ROSCAs). CANEF, with 12,500 clients, is the most well known solidarity group program in Mali, and is growing extremely fast in the environs of Bamako. CANEF previously received a grant from USAID and now receives funding from Plan International. USAID has also provided grant funds to another well known program, PIEC, supported by World Education.[1] The 1997 assessment of the USAID/Mali microfinance portfolio found the PIEC program to have a solid lending methodology, adequate information systems, and well trained staff.

The village bank model is best reflected in the network of CVECAs, or *caisses villageoises d'épargne et de crédit autogérées*. The CVECAs started in the rural area known as Pays Dogon by a French NGO, CIDR, for the purpose of developing a sustainable financial intermediation mechanism at the local level.[2] CIDR initially provides financing for credit, which in turn generates internal savings. Technical assistance and training are also provided so that the CVECA membership can eventually assume its own management. In addition, there is a central unit that provides essential services to all CVECAs. CVECAs operate independently although they are joined in Associations which negotiate refinancing on their behalf with the BNDA. Today CVECAs serve 270,000 Malians through a network of 450 *caisses* concentrated in 4 regions. Average loan size is $43. The credit is extended for 4.5 months on average at an annual interest rate of 40 percent. Term deposits earn 20 percent interest per annum. Two out of the three institutions identified as being operationally sustainable in a 1996 GTZ study were CVECAs.

---

[1] Funding for the PIEC program has been extended for three years by the mission.

[2] The Dogon people are among the poorest in Mali, physically isolated by terrain and poor infrastructure and without cash crops to generate excess income. Nevertheless the CVECAs of the Dogon people have demonstrated the potential of grass-roots mobilization of human and financial resources.

The third category of MFIs are the *mutuelles d'épargne et de crédit* or credit unions. These entities rely heavily on savings mobilization and offer a broader range of financial services than the *caisses*. The best known mutuelles are Kafo Jiginew, based in cotton producing Koutiala, and Nyesigiso, headquartered in Bamako but with a large operation in Segou. In 1996, between them the two institutions serviced some 67,000 individual rural and urban clients, with transactions totaling $5.4 million in deposits and $4.5 in credit.

The credit unions use solidarity group principles of savings and small loans for income generation. In contrast to the formal bank requirements for savings accounts, there is no minimum deposit or balances, legal and administrative requirements are minimal, and deposits earn a fair rate of interest. Also, both Kafo Jiginew and Nyesigiso implement special programs to assist women with nutritional, health and immunization services. Despite the usually cumbersome linkage of social with financial services this methodology has been successful. Nevertheless, clients who have received both social and financial services over quite a period of time from the credit unions — 8 loan cycles in Koutiala — are sufficiently experienced to seek larger loans than those offered by the credit unions. Such clients should graduate into other programs like the caisses that offer a wider variety of services.

USAID grant assistance has been extended to both Kafo Jiginew and Nyesigiso through the U.S. PVO Freedom from Hunger. USAID has also supported two other credit union programs: Faso Jigi, created by Save the Children with operations in Sikasso, and Jigi Yaso, part of the World Education's network in and around Bamako. The 1997 evaluation noted that neither Faso Jigi nor Jigi Yaso had obtained sufficient operational scale or developed internal operating systems to manage the program adequately.

It should also be noted that another type of financing mechanism exists which provides lending services through a line of credit attached to a project. Examples of this approach are Faah Layidu, ACODEP, and Guamina. The mechanism appears to be losing ground given the success and lower delivery cost of other savings and loans models. In the regions of Tomoboctou, Gao, and Kidal, the only microfinance operations are targeted, subsidized credit programs that are part of other development relief programs.

The degree of institutional capacity amongst MFIs in Mali is highly variable. As noted above, the 1996 GTZ study found that only three MFIs had attained operational viability. This finding indicates a need for ongoing support, both technical assistance and training, to all MFIs with respect to overall institutional strengthening and the introduction of specific improvements in policies, procedures and systems. In view of the growth projections for the target market, only the strongest institutions will be able to expand their service offerings into new areas and attain the requisite scale of operations which ensures financial and operational viability.

Table 1 on the following page summarizes the scale of operations of key MFIs and indicates USAID support to the same.

B2. The Formal Financial Sector

The formal financial network of commercial banks and NBFIs provided 61 operating windows (*guichets*) at the end of 1997, or on average one window per 147,000 inhabitants. Geographic coverage is extremely uneven; more than half of the counters are located in Bamako and the Sikasso region. For the most part these FIs and NBFIs engage in short term lending and focus on import and export activities. Despite their fairly liquid position, they do not extend credit to micro- and small-scale entrepreneurs. Instead they invest surplus funds in regional money markets.

Table II-1. Key Micro-Finance Institutions in Mali
(Figures in CFA millions except USAID funds, shown in USD

Institutions	No. Clients	Savings	Credit	USAID Support	Amount (US$)
Credit Unions					
Kafo Jigenew	46,078	1,888	1,653	Y**	Not Applicable
Nyesigso	20,764	1,178	883	Y**	Not Applicable
CRMD	10,300	135	670	N	
Kondo Jigima	5,600	267	165	N	
Jemini	1,500	60	32	N	
Faso Jigi (SCF, USA)	3,700	10	48	Y	1.6 million
Jigi Yaso (World Ed)	752	22	4	Y	118,000
Village Banks (CVECAs)					
Pays Dogon	21,495	173	321	N	
1st reg.	13,500	50	86	N	
Niono	9,042	116	362	N	
Passacop	1,500	5	5	N	
Solidarity Groups					
CANEF	12,500	35	125	N	
Miseli	3,200	13	33	N	
Nyeta Mussow	1,500	20	24	N	
NEF	1,700	--	4	N	
PIEC	180	3	3	Y	730,000
Plan International	700	1	12	N	
ACOD	302	1	6	N	
ADAF	334	--	9	N	
Baran Nyuman	227	8	4	N	
APIDEL	60	--	1	N	
Total	**149,134**	**3,985**	**4,450**		**2,448,000**

Data 1996, from World Bank.
* Does not include small AFRICARE grant and Freedom From Hunger Grants.
** For education only.

The banking sector's attitude toward small-scale clients is reflected in the requirements for opening a savings account. For example, the Banque Internationale de Mali (BIM) requires 50,000 CFA to open a savings account in which a minimum balance of 25,000 CFA must be maintained. Opening business and professional accounts are extremely complex transactions requiring affidavits, official announcements in a journal of record, registration with the Registry of Commerce, copies of incorporation documents, registration testimonials, nominating decree for officers of a firm, large minimum balances. In addition, substantial administrative fees are levied.

Despite these policy impediments to financial intermediation for small-scale entrepreneurs and the basic conservatism of formal FIs, given the volume of credit and savings involved in MFI operations, commercial banks are beginning to recognize the profit potential of working with these intermediaries. The BNDA (National Agricultural Development Bank) has taken the lead in this area, not only offering credit to MFIs to finance their on-lending requirements and providing in-house training services as well. The BIM is also providing credit to MFIs, although on a smaller scale.

For their part, MFIs have benefitted from these institutional "partnerships" or second-story operations. For example, the locust invasion in Pays Dogon in 1988 resulted in crop losses which in turn forced villagers to withdraw their CVECA savings and apply for larger loans. Facing serious arrears, the CVECAs formed associations and obtained financing from the BNDA. There are now three associations, each with 10 to 25 CVECA members.

The foregoing comments must be put into proper perspective however. In Mali the GRM is frequently a shareholder in commercial banks. In the case of the BNDA, both the GRM and France are shareholders. Given the developmental orientation of the BNDA and its backers it is hardly surprising that France, through its developmental arm, the AFD, provides letters of guarantee for BNDA's wholesale lending operations with the CVECA associations. While this results in formal FI involvement in the target sector, the commercial banks themselves are not assuming the full risk for these second-story lending operations. Free of some risk management requirements, such involvement could be dangerous as the commercial banks have little incentive to improve their own capacity to operate in the most effective and profitable manner.

Establishing strong commercial bank-MFI linkages through second-story operations is an important method and first step in bringing about the penetration of the target market by formal FIs.[3] That said, these links cannot be forged solely on the basis of international credit and guarantee funds. It requires the commitment of internal resources and the associated assumption of risk. Experience elsewhere suggests that commercial banks can conduct microfinance operations effectively and in a profitable manner at two levels: that of the MFI borrower and that of the target end-user microentrepreneurs. What is required is a better understanding of the target borrower profile and the adaptation of traditional policies, procedures and risk management techniques — commonly referred to as "best practice" technology — to the operating environment of the microentrepreneur.

C. The Target Borrower Sector

Microentrepreneurs in Mali face many constraints of which the inability to access financial services is one of the most important. For most, the only access to credit is through informal mechanisms: the family, community associations (religious, vocational) or a local rich person. *tontines* or ROSCAs are very popular but funds are seldom invested. One estimate put 10,000 *tontines* of 10 members each within the confines of Bamako alone. Under normal circumstances (that is, except in times of famine or crop failures) highly usurious rates charged by traders or rich farmers are seldom tolerated because social forces and Islamic principles mitigate against

Target Borrower Profile

Typical MFI Customer:

- Adult male or married female (42 percent);
- Lives and works in a semi-urban or rural area;
- Unable to read or write;
- Member in good standing of savings & credit entity for the last 3 years;
- Maintains a savings account balance of $94;
- Obtains a 6 month loan for $167 used for investment;
- As member of a credit union obtains loan or $248;
- As female member of solidarity group obtains short-term loan of maximum $120.

[3] Refer to discussion of the microenterprise sector on page 15, below.

exceptional exploitation. The nomadic populations do not frequent banks and invest their savings in the herds themselves.

It became clear during the course of this assignment that MFIs need assistance with respect to information dissemination. The entities interviewed indicated that their ability to expand their client base is limited by the low level of public awareness of their service offerings. Given that a high percentage of their clientele are illiterate, communications mechanisms are restricted and MFIs cannot make use of basic print advertising. On the other hand radios are popular in even the most remote villages. At present 113 FM stations are owned and operated by communities. These stations broadcast Public Service Announcements (PSAs) free or at low cost. A survey conducted by the USAID/Mali Information and Communication Office found that 92 percent of radio listeners want more information and less music.

D. The Regulatory Framework

With the PARMEC legislation, enacted in 1994, MFIs in Mali gained legal recognition for the first time. Under this law the Ministry of Finance is responsible for supervising MFIs recognized by the legislation. World Bank and GTZ resources have been provided to the MOF to operationalize the legislation. A support unit in the BCEAO, the CAS/SMEC, established for this purpose began operations in 1996.

The main responsibilities of the CAS/SMEC are:

- Evaluate and approve applications for the establishment of MFIs
- Supervise MFI operations
- Disseminate information

The CAS/SMEC has been also provided with resources (ILO, Norway, Canada) to maintain a reliable data-bank on MFI activities.

The PARMEC legislation attempts to bring under one umbrella various types of MFIs. Some are well established and operate as would a formal FI. Others are so informal that they are unable to satisfy the rigorous requirements of the legislation. The legislation recognizes the evolving nature of these different institutional types and allows them to enjoy legal recognition on a temporary basis, for up to five years.[4] Although this is a practical solution to a transition period in the evolution of MFIs in Mali and may allow some MFIs to evolve into sustainable FIs, others will not be able to achieve the necessary performance standards along with the systems, policies and procedures to permit them to obtain statutory recognition within the five-year period.
The legal and regulatory framework governing MFI operations in Mali is evolving. As developments take place, it is important for USAID to assume a role in this process and assist MFIs to become integrated members of the financial community. It should also assist with the development of specific regulations and the definition of responsibilities and activities appropriate for regulatory agencies.

E. The National Strategy for the Promotion of Microfinance

The National Strategy for the Promotion of Microfinance was initiated by the President and developed with the assistance of the World Bank and GTZ. The strategic goal is to increase the target sector clientele from a 1996 base of 160,000 microentrepreneurs to 560,000 in 2001. The plan places

---

[4] Adopted in 1996 by the Council of Ministers.

special emphasis on reaching out to the most disadvantaged groups in the population and assumes an expansion of geographic coverage.

The action plan supporting the National Strategy focuses on several areas, including:

- Institutional strengthening of the MOF Microfinance Unit (CAS/SMEC)
- Enforcing and improving the regulatory framework governing microfinance operations
- Redefining GRM involvement in the sector so as to limit its sphere of responsibilities to MFI supervision and the coordination of donor initiatives
- Reinforcing networks among institutions and practitioners
- Increasing the provision of commercial bank financial resources to MFIs
- Improving the information base on MFIs and their associations
- Providing training to MFI staff

A "Consultative Group" has been organized to bring together donors and other interested parties to work on implementation of the National Strategy. This group meets several times a year but it is hoped that working groups will meet more frequently on an ongoing basis. The role of USAID in the Consultative Group is critical because it is a forum that will influence national policies regarding microfinance.

The National Plan is comprehensive but perhaps overly ambitious. It assumes a level of government/donor coordination which does not exist. It projects a time frame which is too narrow to achieve stated objectives. This issue is already being addressed by CAS/SMEC. Other concerns regarding the National Strategy are how to develop an exit strategy for involved international NGOs and how to encourage commercial banks to assume lending risk while gradually phasing out donor guarantees.

F. Association Professionnelle des Institutions de Microfinance (APIM)[5]

The APIM is a association that comprises all MFIs in Mali. It aims to develop and introduce operating guidelines for its members and will sanction those institutions not meeting established performance and management standards. The APIM consists of some 40 members, of which half are active. It meets on a quarterly basis and the presidency is rotational. A permanent secretariat will be created in mid 1999 with assistance from the Swiss development agencies.

The APIM adheres to a demand- rather than a supply-driven approach and will operate in response to client and market needs rather than donor agendas. On acquiring its new legal status, the APIM will be positioned to carry out a variety of activities, including:

- Training of APIM members in microfinance best practice
- Development of an MFI rating system
- Development of software for individual MFIs and institutional networks
- Development of new credit and savings products
- Training of members of the banking sector, the government and other institutions
- Creation of an informational clearinghouse

The provision of training will be an area of particular importance for the APIM. At present, an estimated 480 staff and 5,900 volunteers work in the microfinance sector in Mali. Volunteers are an

[5] **On May 12, 1999 the Cadre de Concertations was renamed the APIM.**

important resource in the microfinance community. They run committees and, if literate, maintain records, manage funds, organize and run meetings, serve as de facto bank managers, accountants, extensionists, publicists etc. While some volunteers are partially remunerated for their work, most volunteer because of a strong personal motivation. Having said that, it should be recognized that volunteer work, while extremely important, may mask operating inefficiencies in that the true cost of volunteer work is not captured in the financial statements. This area should be addressed in the MFI training.

Given the range of potential activities and the large and increasing market for them, the APIM will need to define its role in the microfinance sector carefully, prioritize its work and develop a medium and long-term plan of action.

G. Donor Participation in Microfinance

In terms of technical assistance, Canada is the lead donor in Mali, followed by France, Germany and the World Bank in descending order. The Netherlands and Switzerland are currently preparing their strategic plans. UN-CDF is in the process of analyzing report recommendations for expansion of financial services into the Timbuktu Region and is negotiating with Nyesigiso on its role in the channeling of resources.[6]

The World Bank has become active in recent years in the area of supervision and regulation. It has also carried out in-depth analytical work, and is providing support to the new Microfinance Unit, CAS/SMEC, at the Ministry of Finance. GTZ has partnered with the World Bank on research and strengthening of the CAS/SMEC. In addition, GTZ has offered to fund part of a study to identify training needs, as called for in the National Plan of Action.

Donor Support for Microfinance

Donor	**Area of Support**
GTZ	Training Study (TA to 1 MFI)
World Bank	CAS/SMEC (Training, CGAP)
UNCDF	MFIs in Timbuktu
AFD/France	BNDA Guarantees
Canada	2 MFIs (Regulatory Framework)
KFW	CVECAs
Switzerland	1 MFI (APIM)
Netherlands	Planning Strategy

With respect to training, CGAP (World Bank) has developed financial management courses for the West African MFI network through the BCEAO. 1997 and 1998 course offerings included topics such as interest rate calculation, debt management and financial analysis. At the present time the CGAP training program is being decentralized and more responsibility is being transferred to the individual countries. Additional courses will probably be offered in Mali by mid-1999. CGAP is also planning to offer training to staff of supervisory agencies once its material on regulatory guidelines is published.

H. USAID Involvement in the Sector

In early 1995 USAID/Mali initiated a re-engineering process which resulted in the establishment of several new programmatic areas including Youth, Governance, Sustainable Economic Growth (SEG), and Information and Communication. Under the SEG Strategic Objective, the Intermediate Results packages relate to Cereals, Livestock, New Opportunities and Financial Services sectors. Microfinance initiatives fall under the latter IR and contain the following main activities:

- Conduct policy dialogue conducive to establishing a sound enabling environment for MFIs

[6] This report should be available at UNDP/Mali March 1999.

- Provide technical assistance and training to increase financial and operational sustainability of MFIs

- Increase access to financial services throughout the country by creating/expanding MFIs

- Facilitate increased lending by banks to MFIs through training and other mechanisms

To date USAID has had a minor role in the area of microfinance and for the most part has channeled its resources in grant format to US-PVOs and NGOs involved in microfinance. At present the Mission's directly supports the following specific institutions:

World Ed. (PIEC)	(Solidarity Groups)	$270,050
World Ed. (Jigiyaso)	(Credit Union)	$118,000
Save the Children (Solidarity Groups and Credit Unions)		$1,634,537
Total:		$2,022,587

USAID/Washington funds are providing support for the local NGO CANEF, and for Nyesigiso and Kafo Jiginaw through the U.S. PVO Freedom from Hunger. Its resources are used for training, technical assistance to strengthen management systems and credit technology and short-term lending activities. The degree of success in achieving institutional viability in these organizations varies: PIEC is about to undertake a significant expansion of its operations whereas Jigiyaso has only achieved 8 percent of operational self-sufficiency after three years of operations.

I. Conclusion

The December, 1997 assessment recommended that USAID/Mali should:

- Discontinue supporting MFIs which have not demonstrated progress toward achieving institutional sustainability.

- Channel its support to dynamic institutions with the potential for expansion.

- Become involved in other areas of importance, including development of the legal, regulatory and policy environment for MFIs and working with commercial banking sector to develop links with MFIs.

- Hire a qualified microfinance expert to serve as an advisor if the mission intends to expand its activities in the microfinance arena.

Our analysis supports these recommendations and indicates that microfinance is a growth sector in need of assistance in many areas. Although donor involvement is great, and MFIs require technical assistance if financial services are to expand, USAID/Mali has a comparative advantage in specific niche areas which are critical to the success of MFI-specific initiatives. At the national level policy dialogue must continue and the regulatory framework must be operationalized to ensure the safety of the assets of the poor and the soundness of the institutions serving the sector. Every effort must be made to bring leading MFIs into the formal financial community and encourage commercial banks to take an active part in the target market.

In the following section a proposal for future USAID/Mali engagement in microfinance is presented, along with the outline for an initial implementation plan.

SECTION III

Proposed Project Design and Implementation Plan

A. Introductory Comments

In Section II we identified the context in which an expansion of USAID/Mali initiatives in microfinance would take place. Drawing upon this analysis, the consultants have kept the following points in mind when formulating the proposal set forth in Section III.

- The National Strategy for the Promotion of Microfinance reflects a serious GRM commitment to developing and expanding microfinance in Mali
- The regulatory framework has yet to be operationalized
- Future developments with respect to regional institutions and regulations may have an impact on microfinance operations within Mali
- Donor involvement in microfinance activities is sizeable but uncoordinated
- The divide between formal and informal financial institutions is largely intact
- Geography and borrower profile combine to create a unique set of challenges for MFI operations

The foregoing indicates various “entry points” for Mission initiatives, including policy reform, supervision and regulation, financial sector strengthening with respect to microfinance and donor coordination. The range of areas requiring attention also suggests that the overall programmatic approach selected by the Mission should be highly focused, selective, and flexible.

B. Working Assumptions

The following working assumptions have been incorporated into the proposed strategic plan.

Definition of microenterprise. Given the wide range of microenterprises in Mali it is difficult to provide a precise definition of the target market. On the one hand, there are the very small microenterprises that are made up mostly of women operating small ventures from their homes. These microenterprises may represent a demand for loan funds from 2,000 to 20,000 CFA. On the other hand, there are growth-oriented microenterprises that are seeking several hundred thousand CFA in credit. In this situation, it is best to define microenterprise by the characteristic that they have in common: lack of access to formal sources of credit due to lack of collateral or credit history on the part of the borrower. In addition, microenterprises usually employ ten or fewer in staff and the operations in question are generally informal ventures in both rural and urban areas. We also assume that microenterprises include agribusiness activities but not on-farm production.

The foregoing is in keeping with the most recent Agency policy guidelines[1] defining the characteristics of a microenterprise:

1. The firm employs ten or fewer people, including the microentrepreneur and any family workers;

[1] Reference USAID Microenterprise Development Policy Paper, Section 1, Subsection 1.A.

2. The firm is informally organized and conducts business activities other than crop production;

3. The firm has a low level of assets or income.

In accordance with our assumption, future USAID/Mali initiatives should keep in mind that the guidelines do not impose individual loan ceiling restrictions nor do they restrict the level of personal assets of borrowers. Additionally, according to Agency guidelines, every effort will be made to plan interventions which are in keeping with GRM objectives for the target sector.

Definition of the microenterprise sector. Along with the emergence of a body of best practice techniques and set of nontraditional credit delivery systems, as microfinance has developed over the past twenty years, it has been primarily associated with a narrow clientele base — the "poorest of the poor" — and the informal sector NGOs which dominate the service providers. This association has brought with it some very unfortunate consequences. First, the microenterprise sector has all too often been equated with the hard core poor when in fact this group is just one amongst various lower income population groups. In fact, although they routinely represent an important and sizeable group in developing country economies, the poorest of the poor do not constitute the entire microenterprise sector nor are they by definition microentrepreneurs.

Second, it must be recognized that the microenterprise sector is not homogeneous and there are varying degrees of poverty. This suggests that the ongoing focus on the lowest stratum in the income scale at the expense of the relatively better off segments in the microenterprise sector, has worked to the detriment of real microenterprise finance. People who may properly be classified as microentrepreneurs and who have the capacity to improve upon and/or expand their business, are neglected by formal FIs and many informal intermediaries as well as those institutions servicing the small enterprise sector.

Third, it has never been shown, in a measurable and systematic manner, that the poorest of the poor subsegment actually contributes to sustainable economic growth. In fact what often passes for a loan, or credit, is little more than a social transfer payment which supplements support provided by the government, if any. Regardless of the obligation to repay, the funds are a form of sustenance and the amounts are not large enough to be translated into enterprise growth. This is particularly true where facilities to mobilize savings are not made available.

Given the problems with working only with the poorest of the poor, the proposal will focus primarily on other target sector subsegments to ensure that the USAID-supported initiatives actually contribute to overall economic growth. This can be measured by value-added, business expansion and/or employment generation on the part of both borrowers and lenders.

The nature of microenterprise finance. Formal FIs and most donors have misunderstood the nature and market potential of microenterprise finance. First, due to the inappropriate use of terminology, microcredit transactions have assumed the proportion of microenterprise finance when in fact credit is a distinct transactional subset within the broader category of finance. Second, NGOs frequently assign a social mission to what rightly should be commercial, profit-generating transactions, and in so doing have hindered if not prevented the incorporation of microfinance into routine banking operations. Third, most regulatory bodies in developing countries do not treat microcredit as a legitimate loan portfolio subset, with the result that microenterprise loans falls under the consumer credit category. Misclassifying microenterprise loans distorts portfolio risk weighting, the calculation of reserve requirements and loan write-offs, to mention a few areas.

For the purposes of this proposal, microenterprise finance is treated as a subset within routine banking operations. As such it involves all the routine aspects of bank financial management (e.g. liquidity, risk, reserve requirements, capital adequacy, profitability, etc.)

Formal and informal financial intermediaries. Until quite recently most donors have bought into NGO insistence upon the application of non-commercial systems, administration and channels of credit distribution, having assumed that this is the only way to service the microenterprise (viz poorest of the poor) sector. For their part, formal FIs have opted to stay out of this market niche entirely, having misunderstood the borrower profile of microentrepreneurs as well as the market and profit potential of microenterprise finance.

Two new trends in microenterprise finance are slowly emerging. In many developing countries, competitive pressures born of globalization and the entry of foreign banks into the domestic financial sector are forcing formal FIs to rethink their traditional client base and the market potential of the microenterprise sector. Most of those FIs which have decided to “downscale” and extend operations into the microenterprise market have achieved extremely satisfactory operating results by combining selected microcredit best practices with prudential banking norms. A trend in the opposite direction is even more noticeable. Many NGOs are “upgrading” their operations, systems and management routines, transforming themselves into formal FIs to expand outreach, financial service offerings and achieve financial viability.

The proposal assumes that there is everything to gain and nothing to lose by narrowing the divide between formal and informal financial intermediaries. It assumes the Mission will seek out formal FIs expressing a commitment to penetrate the target market as well as informal intermediaries prepared to upgrade their operations. In the opinion of the consultants, this is one of the key ways in which to ensure the sustainability of individual units and/or financial entities servicing the target sector. This does not imply the disappearance of informal MFIs. It does suggest an overall strengthening of these institutions as well as the opening of new sources of financial resources (i.e. the banking community itself).

Donor coordination. We are recommending that the Mission provide assistance in the areas which complement rather than supplant or overlap with other donor interventions. This will require a much greater effort on the part of USAID/Mali as well as the other donors to interact in a positive, proactive manner. The proposal assumes a willingness on the part of the Mission to assume this responsibility.

Government will not change policy. The GRM has established microfinance as a priority sector and as such has developed a strategy and allocated resources, human and financial, to coordinating the implementation of the strategy and supervising microfinance institutions. We have assumed ongoing government support in this area and a willingness to implement necessary legal and regulatory change. Any change in government policy will likely affect the outcome of the proposed program.

Mission resources. Finally, we have assumed that USAID/Mali will have access to resources to fund the initiatives that we are recommending.

C. Activity Design

Our approach to developing a microfinance program for USAID/Mali is comprehensive, integrated and flexible. It takes into account all the factors contributing to the establishment of an enabling environment for healthy and sustainable microfinance operations as well as other donor initiatives and Mission SOs and IRs. The proposal consists of a package of initiatives which focuses on the specific needs of counterpart organizations and institutions in areas in which gaps have been identified in the provision of technical assistance and training. Individual interventions would fall within the following activity categories: Policy Dialogue and Support; Financial Sector Reform; and Institutional Strengthening.

In the dynamic and evolving environment of microfinance, improvements in lending technologies, legal and regulatory frameworks and changes in the institutional profile of the banking sector present a special set of challenges and make it difficult to project a multi year technical assistance activity at the detail level. In such a situation, the concept and contractual mechanism we propose using, the "Umbrella Contract", is particularly well suited for the tasks at hand. Based upon our first hand experience in the design and application of this mechanism, we believe it will allow the Mission to pursue interventions in the target sector while enjoying the flexibility needed to revise program implementation as and when necessary.

An umbrella contract resembles an IQC in that under a single contract a series of task orders are developed and implemented. The umbrella contract is awarded to one firm (or consortium) which has the capacity and expertise to execute a broad range of initiatives relating to microfinance in an effective and efficient manner. The contract could be awarded as an "umbrella task order" through an existing IQC vehicle or it could be openly competed as a cost-plus-fee contract[2]. That said, given the ease for which IQC contracts can be competed and negotiated, we recommend the mission seriously consider utilizing the IQC as a vehicle for an umbrella contract. Regardless of which contracting mechanism is selected, the implementation is the same — multiple task orders or assignments will be executed under a broadly defined scope of work. The specific benefits accruing to the umbrella mechanism include the following:

Pace and sequencing of technical assistance delivery. The value added of the umbrella approach is not necessarily related to the *type* of technical assistance provided, but the *manner,* that is to say the pace and sequencing, in which it is provided. The pacing and sequencing of individual initiatives in a systematic and logical manner, based upon the agreed-upon requirements of the counterparts, increases the chance of achieving successful outcomes.

An additional benefit related to activity pacing is the increased ability of the Mission to monitor, evaluate and exercise quality control and subject matter supervision over program implementation and the delivery of specific inputs.

Activity "Ownership." The umbrella approach is collaborative and iterative. As technical assistance under this arrangement is tailored to the needs of the specific counterpart organization and proceeds in stages, the ongoing commitment of counterparts and their active involvement in programming inputs tends to be greater. This in turn increases the potential for counterparts to take ownership of the activity or series of initiatives. Without these ingredients — involvement, commitment and ownership — the full value of the technical assistance provided will not be institutionalized. Our experience in working with this mechanism has shown that changes recommended and introduced by the consultants are easier to implement and more likely to be incorporated into a given institution's culture.

[2] Cost-plus-fee competition could be used if the mission desires to receive proposals from a wider pool of technical assistance providers

Profile of the technical assistance team. To maximize the benefits inherent in the umbrella contract mechanism, the services of a long-term resident expert are needed. That person is then supported by short term consultants, each of whom may perform one or more assignments over time.[3] It is not unusual for the same short term consultant to work with the same institution over time on the basis of staggered individual inputs. What drives the team profile is the nature of short term expertise required.

Once the package of interventions for a specific institution has been determined, the resident expert identifies the most appropriate individuals to carry out the work. For those activities where the technical assistance envisioned for a particular institution will be carried over a long period of time, the resident expert will identify a lead technical expert coordinator "team leader". That person will work closely with the recipient institution and take responsibility for achieving the expected results outlined in scopes of work. The team leader also ensures that best practices developed in one institution are disseminated to the other institutions.

The role of the team leader is similar to that of the long-term resident expert, except that the former routinely will work with only one institution, providing technical assistance on a staggered basis and coordinating the work of any other specific short-term experts expected to participate during the life of the intervention. The team leader is the contact person who works with senior management to ensure agreed-upon policies, procedures and systems are introduced and institutionalized. (S)He must work in a participatory, collaborative, cooperative and friendly manner to obtain the trust and confidence of the counterparts. (S)He provides technical guidance to the short-term consultants and is responsible to the resident expert for the quality of the deliverables.

Cost implications. With respect to financial resources, whether implementing a long-term activity under an umbrella contractual mechanism is more or less costly is largely a function of the core team profile and whether the resident expert is brought in as a consultant (with all associated costs charged against the contract itself) or a PSC (with all associated costs charged to the Mission budget). Regarding non-financial resources (USAID cost of human resources and administration), our experience suggests that the approach is no more costly than a traditional contract-based project.

D. Objective and Goals

The objective of the proposed activity is to promote overall sustainable economic growth in Mali through the expansion of financial intermediation in the microenterprise sector. To achieve this objective, Mission resources will be focused on the realization of two fundamental goals:

1. Establish an enabling policy environment and deepen financial sector intermediation in the target market;

---

[3] The flexibility of the umbrella approach is of great value with respect to the utilization of short-term consultancy expertise. Depending upon the requirements of the particular assignment, a specific team of short-term experts may be provided and, in this case, a lead technical expert coordinator "team leader," responsible to the resident expert, may be identified. Additionally, the resident expert may be a contractor or a USAID Personal Services Contractor (P.C.) and could perform technical work as well.

2. Strengthen the ability of a select group of formal and informal financial intermediaries, professional associations and government agencies to extend financial services to target borrower groups.

The Mission will achieve its objective and goals through the provision of technical assistance and training.

E. Proposed Initiatives

The proposed initiatives are based upon a combination of the needs identified during the field analysis conducted during this consultancy and the microfinance best practice interventions identified and tested by the MicroServe project team. At the conclusion of the proposed assessment phase the specific approach to implementation will be completely demand driven in order to ensure the proper stakeholders have ownership of the initiatives.

The initiatives represent what we perceive to be the technical assistance and training interventions required in the short to medium term. These interventions are intended to be more than illustrative and are based upon the conclusions reached by the consultants during their assignment. That said, the proposed initiatives may be modified and/or refined following Mission review and as a result of the conclusions reached during the diagnostic assessment phase, which would be conducted during months 3-6 (refer to the draft work plan, page 33 below).

With respect to the specific initiatives discussed in the following subsections, we would like to first recommend that the mission take into consideration the following general guidelines which serve as pillars to microfinance best practice interventions:

1. We strongly recommend that the selected group of participating FIs include at least one commercial bank. We consider this to be a critical element in financial sector deepening and bridging the gap between the formal and informal financial sector intermediaries.

2. Training is the *sina qua non* of a successful program of this type. The consultants anticipate that training will be incorporated into a number of individual Task Orders (TOs) and delivered at various stages during the life of the Activity. For this reason, rather than indicate a training component under specific TOs, the overall approach to training and a generic curriculum are presented in Subsection E3. below. In whole or in part, the individual courses should be imparted to the participating FIs and institutions. Precise training requirements will be defined as part of the diagnostic assessments to be performed in advance of formulating work plans.

3. It is strongly recommended that no credit lines, be they in grant or loan format, be incorporated into this program. This would defeat the purpose of the institutional strengthening exercise and undermine the efforts of individual FIs to achieve financial viability.

4. It is strongly recommended that the Mission avoid providing and even encouraging the introduction of any form of loan guarantee facility. Guarantees invite moral hazard on the part of the lending institution. They also remove the incentive to exercise best practice with respect to risk management as they absolve the institution from any responsibility for loan recovery.

5. As the microfinance industry has grown, numerous tools, techniques and systems have been developed which are part of the public domain. Although not referred to in the description of the initiatives which follow, we are assuming that to the extent possible, the consultants will leverage

resources and make full use of existing materials, adapting them if necessary to the requirements of the operating environment in Mali.

6. Best practice with respect to prudential norms is not a function of loan size. It is based upon sound financial reporting and monitoring systems, portfolio management, risk assessment, product packaging and pricing, debt management and business planning. The purpose of prudential regulation and supervision is to ensure that these prudential norms and the underlying systems and procedures which support them, are institutionalized and put into practice. Therefore, the consultants strongly recommend that USAID/Mali promote the strengthening of the legal and regulatory framework governing microfinance operations of both formal FIs and informal MFIs. In this regard, particular attention should be paid to promoting full prudential regulation of MFIs, even if they do not come under the direct supervision of the Central Bank. It must be remembered that inadequate accounting, audit, management and information systems threaten the long-term viability of these entities and potentially will undermine the integrity of the broad financial system and place the assets of small borrowers and depositors in jeopardy. In addition, the more MFIs operate in accordance with best practice precepts, the more likely commercial banks will be to extend credit to these entities, thereby reducing the need for donor and government financial support. We promote the position that MFIs should be subject to prudential regulation or supervision by a government agency even if they do not accept deposits from the general public. That said, we do recommend that in the absence of the appropriate legislation every effort be made to reinforce self-regulation by MFIs. This however should be considered an interim response to the problem of supervision and regulation.

With the foregoing in mind, we proceed to our discussion of proposed initiatives.

E1. Policy Reform and Financial Sector Deepening

Initiatives falling under this goal will include but not be limited to the following:

- Strengthening the legal and regulatory framework governing microfinance initiatives of FIs.
- Expanding the provision of formal financial intermediation to the target market;
- Public Awareness Campaigns
- Policy Dialogue and Donor Coordination

TO 1: Analysis of the Legal and Regulatory Framework Governing Microfinance in Mali

This TO will consist of a rapid, albeit in-depth analysis of the existing PARMEC legal and regulatory framework governing microfinance operations of both FIs and MFIs. The analysis will include licensing, registration and minimum capital requirements, the interest rate regime, loan clarification and provisioning, accounting policies in respect of reporting repayment rates, arrears, rescheduling, portfolio quality and audit standards, and so forth. Based upon this analysis and taking into consideration other donor initiatives in this area, the consultants will identify areas in which the Mission can assume a proactive role in the development and introduction appropriate legislation for the sector. Estimated time frame: three weeks.

TO 2: Assess the Potential for Second-tier Operations

A second-tier banking operation in which the second-story wholesale bank channels funds to first-story operations, can be an important means to channel credit to the target borrower groups. That said, we do not recommend that the second-story institution be government-owned. In the long term USAID/Mali should be supporting all efforts to reduce the role of the public sector in microfinance. However, commercial banks can operate special departments to promote the desired extension of financial services. All concerned in such an operation can benefit if the approach is in keeping with fundamental market-based operations. We recommend analyzing the potential for introducing a private sector second-tier operation early on in the Activity. The assessment would review potential institutions, regulations governing such operations, as well as the benefits accruing in terms of geographic expansion and financial sector deepening. The work would also include an analysis of the costs involved (training, systems installation), the cost to the end borrower, and estimate the demand for this type of capital flow. Estimated time frame: four weeks.

TO 3: Public Awareness Campaigns

A prime factor in fostering sustainable change and development is the planned and systematic use of communication to help individuals, communities and institutions to introduce change. Communication can introduce new ideas and practices, assist individuals to make informed decisions and generate participation in a given initiative. Although communication must be backed up with the commitment of resources, capacity building and so forth, an expansion in the provision of financial services will not be successfully met without a corresponding attitudinal and behavioral change by various stakeholders -- policy and decision-makers, bankers, NGO officers and the borrowers themselves. Service providers need to become more effective in promoting change among their direct and indirect clientele.

Under this TO, the consultants would develop a plan of action to raise awareness through public education campaigns on priority issues relating to microfinance. In this effort, the potential application of mass media (radio and television), print media, traditional media (traditional art forms), video production, public debate, would be explored.[4] Timeframe: three weeks.

TO 4: Policy Reform and Donor Coordination

The purpose of this TO is to define tangible ways in which the Mission collaborate in a proactive manner with the donor community and, in so doing, promote overall policy reform. At the moment donor interaction is limited to the Consultative Group forum. Meetings are somewhat formal and infrequent. Greater communication, both formal and informal, is needed to enhance collaboration, avoid duplication of effort, leverage available resources, and promote agreed-upon policy reform initiatives. This TO would consist of a rapid assessment of how to improve upon the existing mechanisms, identify additional channels for improving communications and outlining specific steps which USAID/Mali might take to increase its visibility in this activity area. Estimate time frame: two weeks.

E2. Institutional Strengthening and Extension of Financial Services to Target Borrower Groups

[4] Given the support provided to USAID/Mali to RTEL (the association of private radio stations), special attention should be paid to working with and through that group.

To achieve the goal of extending the provision of financial services to target borrower groups, the consultants recommend that the Mission focus its resources on the provision of technical assistance and training to the Association Professionelle des Institutions de Microfinance, the CAS/SMEC, and a select group of up to six financial intermediaries, as well as other key professional associations and government agencies.[5]

E2a. Association Professionnelle des Institutions de Microfinance

As noted above, the APIM will soon be recognized by the BCEAO as the legal entity responsible for establishing operating standards and performance guidelines for its MFI members. To date donor assistance for this recently created body has been extremely limited. If the APIM is to live up to its mandate and operate as intended, it will require ongoing technical support over the coming three years. Given that a strong APIM, capable of functioning as an apex association for the industry, could play a pivotal role in the overall strengthening of informal MFIs by channeling information and non-financial resources to its membership and representing the interests of this same group at the national and regional levels, we recommend that institutional strengthening of the APIM be a major activity subcomponent in the USAID/Mali program. Each initiative would be tied to the ultimate goal of providing the APIM with the skills and expertise necessary to function as the main networking and policy advocacy forum for MFIs in Mali and represent its members in policy dialogue with the GRM.

Individual Task Orders (TOs) to be undertaken under this subcomponent would include but not be limited to the following[6] :

TO 1: Conduct an Institutional Diagnostic and Formulate Medium Term Work Plan

> Under this TO the consultants would conduct a rapid assessment of the APIM to define its institutional requirements in terms of human and financial resources, operating systems and training. They would then formulate recommendations and a comprehensive detailed work plan for the strengthening of the institution, to include, *inter alia,* procedures to ensure good corporate governance, organizational structure, the definition of job positions, the provision of operations manuals, administrative guidelines, financial management routines, and so forth, as appropriate for a professional service organization. **The TO would form the basis for successive TOs during the life of the USAID/Mali activity. Estimated time frame: three weeks.**

---

[5] In addition to its existing group of MFI partners, Save the Children (GGLS and Faso Jigi, PIEC, CANEF) USAID should add new two new partners, of which we strongly recommend that one be a commercial bank.

[6] With the APIM and other institutions identified in this outline of individual activities, it is assumed that the Mission will have obtained a commitment from the organization to participate in the program. The individual initiatives are set forth as Task Orders. Scheduling of consultancy inputs, individual draft scopes of work and definition of deliverables, performance indicators and so forth, would be developed as part of TO1. Our estimates of the necessary time frames do not imply a linear scheduling of inputs: individual TOs might be implemented in parallel and/or consecutively, as appropriate.

TO 2: Develop a Strategic Plan

Formulate a comprehensive Three-Year Strategic Plan for the APIM which would include definition of a marketing strategy, development and delivery of educational campaigns for its members, the programming of APIM-sponsored seminars and workshops, and so forth. The Strategic Plan would also include a training program to upgrade the skills of its own staff. An important component of the Strategic Plan would be the formulation of a business plan, along with financial projections and an operating budget. The consultants would work with the counterparts to identify revenue-generating activities which would permit the association to achieve financial viability within a 3-5 year period. Estimated time frame: three weeks.

TO 3: Develop MFI Operating Standards

The APIM should take the lead in developing a voluntary code of conduct along with performance and reporting standards for member MFIs. Based upon a standard chart of accounts the code and standards would permit self-regulation and provide guidelines to the APIM itself . The standards should be consistent with those to be used in the MFI rating system (see TO 4). Estimated time frame: 4 weeks.

TO 4: Develop an MFI Performance Rating System

The APIM should take the lead in developing and introducing sign an MFI performance rating system which would rank the performance and operations of individual MFIs in accordance with "industry" standards. The system would incorporate financial and non-financial indicators (a form of modified CAMELS system) and would serve to inform the institution itself as well to appraise potential investors, creditors and donors lending institutions of the creditworthiness of particular intermediaries. Estimated time frame: 4 person months.[7]

TO 5: Savings Mobilization Study

As part of the overall effort to strengthen the APIM, we recommend that the association work with the consultants to conduct an analysis of savings mobilization in the target sector — what is currently happening, the potential for expanding the client depositor base and the savings instruments most appropriate for the operating environment. Not only is this study necessary to complete TO 6, but the involvement of the APIM will permit it to develop and take a lead role in designing the new products and position the Association to assist its member organizations to expand the range of credit and savings instruments made available to microentrepreneurs. Estimated time frame: 1 person month.

---

[7] A great deal of work has been performed on the design, testing and refinement of a credit rating system with the associated performance indicators with IDB and USAID support. Under this TO we are recommending the adoption of such a system, its modification for the operating environment in Mali, if required, the provision of appropriate training to the APIM and its subsequent introduction into the monitoring activities of the APIM and its MFI members. Our estimation of the person month LOE is based upon the assumption that the existing credit rating system would be made available to the APIM and adapted to the requirements of the APIM. It would not be designed from scratch.

TO 6: New Financial Products and Systems

Under this TO, technical assistance would be made available to the APIM to "develop" and introduce new financial products and loan monitoring systems. An inventory of what loan products are currently in use in Mali would be conducted as the first step in developing a package of new financial instruments. The findings of the Savings Mobilization Study would be incorporated into this effort. Estimated time frame: three weeks.

E2b. CAS/SMEC

At the moment, the CAS/SMEC is the unit responsible for microfinance and operates from its base within the Ministry of Finance. There is no question that a great deal of work remains to be done to ensure that this unit carries out its line responsibilities with regard to target sector monitoring, reporting and ensuring that agreed-upon legislative changes introduced by the BCEAO are translated into practice within Mali.

Other donors are providing direct assistance to the CAS/SMEC. We believe the Mission can also contribute to this effort and suggest that a diagnostic evaluation be performed for as a first step in this direction. That activity should be undertaken with the agreement of other donors providing assistance to this unit. Amongst the activities which might be carried out, we note the following:

- Provision of training to CAS/SMEC personnel, with a focus on legal and regulatory issues, monitoring and evaluation;
- Development of in-house monitoring and evaluation capacity, an action plan to initiate field evaluations and the introduction of a computerized monitoring information system;
- Development of formal, sustainable linkages between the CAS/SMEC, the APIM, key ministries and other agencies involved in the implementation of the National Strategy.

E2c. Participating Financial Intermediaries

We recommend that under the proposed program, direct technical assistance be provided to five MFIs and one FI. The MFIs should be selected from amongst the following organizations: Save the Children (GGLS Program), PIEC, CANEF, ACOD, Kafo Jiginew, and Nyesigiso. The first three institutions have already received direct or indirect USAID support. The latter three would become new MFI partners.[8]

Based upon our brief analysis during the course of this assignment, we have identified the following specific areas in which the MFIs have indicated the need for technical assistance and/or training. These are presented in the table below for illustrative purposes only.

---

[8] Clearly the Mission will determine the size of the participating group of intermediaries. The recommendation that no more than six entities be selected is a function of resource availability and the advisability of providing comprehensive, in-depth support over time to the same beneficiary group.

Table III-1. Institutional Technical Assistance Needs

Institution	Technical Assistance/Training Needs Identified
SCF-USA: GGLS	Improve capacity to mobilize savings and expand outreach to under served client groups.
SCF-USA: Faso Jigi	Improve capacity to mobilize savings and expand outreach to under served client groups.
PIEC	Overall institutional development; savings mobilization methodology
CANEF	Overall institutional development, savings mobilization methodology
A.C.O.D. (via CLUSA)	Improve training content and materials, enhance skill level of A.C.O.D. trainers, strengthen existing credit and savings groups, expand outreach to women members
Kafo Jiginew	MIS, new product development to widen client base, portfolio diversification
Nyesigiso	Liquidity management, development of new products to widen client base

In practice we recommend the following approach. Once the target group of participating FIs/MFIs has been selected by USAID/Mali and the institutions themselves have committed to participate in the program, each entity will be the subject of a detailed diagnostic evaluation. The individual assessment will form the basis for the development of an institution-specific plan of action and set of TOs which will outline the specialized short-term technical assistance and training to be provided during the life of the Activity.

For the purposes of this proposal, we limit our comments to a discussion of the diagnostic evaluation only.

The diagnostic would be performed by a team of consultants enjoying expertise in management and organization, financial operations and information systems. The team would assess existing policies, procedures, administration and management routines to ascertain the institution's ability to service the target sector in an effective, efficient and sustainable manner. It would also determine technical assistance, training and resource requirements of the organization. Finally, it would draft an action plan and identify a series of TOs to be implemented. We estimate that for each entity three weeks of LOE would be required.[9]

In the following paragraphs we expand upon the three areas to be reviewed.

Management and Organization: This aspect of the diagnostic will include but not be limited to assessing:

- Management routines and overall administrative procedures
- Human resources and staffing patterns
- Organizational arrangements
- Corporate governance and ownership structures
- Planning and budgeting function

[9] For the IGP evaluations carried out by Chemonics under the MicroServe IQC, a two-person team completes the diagnostic in two weeks. Additional LOE is required to complete the draft reports. Our three week estimate may be appropriate for some institutions and not others and we recommend that the Mission be flexible in this regard.

- Marketing function
- Training programs

The consultants would make specific recommendations for strengthening the institution in relation to each of these areas.

Financial operations. In this area the diagnostic would involve an examination of basic financial strengths and weaknesses, based upon the application of a modified CAMELS methodology. The assessment would include but not be limited to:

- Financial statement analyses, including sources and uses of funds

- SWOT analysis and prospects for achieving financial/operational viability

- Policies and procedures regarding, *inter alia,* loan pricing, interest rate policy, liquidity management, asset management, loan loss provisions, loan recovery, accounting practices, audit and internal control, etc. (or absence thereof)

- The breadth and scope of beneficiaries coverage and the prospects of increasing outreach

- Financial product line

- The variety, level, and quality of the non-financial services offered and the impact on the financial operations

Based upon this analysis, the team would formulate specific recommendations for improving the financial posture of the institution and expanding its financial service offerings in the target market.

Management Information Systems: Under this component of the diagnostic, the team will:

- Examine the strengths and weaknesses of the existing management information system (MIS);

- Assess the ability of the MIS to handle increased loan volume and service an expanded clientele;

- Assess the ability of the MIS to function as an early warning system, ensure data integrity and security, support the requirements for financial reporting, financial management, loan monitoring and evaluation.

On the basis of its findings, the team will identify additional hardware, software and training requirements. A budget and work plan will be prepared for review and consideration by the Mission.

E3. Training

The objective of all training to be delivered under the proposed Activity is to assist the participating intermediaries, the APIM and the government agencies to realize operational sustainability, financial viability and profitability. The training should result in improvements in overall performance and operating results. This in turn is the catalyst required for these entities to commit their resources to servicing the microenterprise sector over the long term.

Training will be imparted under the various TOs and therefore will be written into the various scopes of work. As part of each institutional diagnostic to be carried out, a training needs assessment will be conducted and on this basis, an institution-specific training program will be defined. Each individual training program should be comprehensive in terms of curriculum and focus, broad with respect to the target audience and varied with regard to training technologies. It should also introduce a process, methodology and materials to permit the delivery of future training by the participating entities themselves.

In the following paragraphs we comment upon certain aspects of the approach. With the exception of the two specific TOs outlined at the end of this subsection, no effort is made to set forth specific training interventions given that these initiatives will be based upon the findings of the diagnostic evaluations, as indicated above.

Curriculum and focus: The training should focus first and foremost on developing appropriate functional skills. As outlined in Table III-1 below, the subject matter will include microfinance best practices as well as related areas such as credit and risk analysis, problem-loan management, information systems and management, monitoring and evaluation, cost management, problem identification, analysis and resolution, to mention a few. Course content will be tailored to the needs of the individual institutions.

The training curriculum outlined below is particularly relevant for lending institutions, both formal and informal. The same set of modules in a slightly modified version should also be delivered to staff of the APIM and CAS/SMEC to increase their understanding of microfinance best practice technology and the application of basic supervisory norms to microcredit operations. In addition specific training should be delivered to CAS/SMEC in on-site and off-site supervision, external audit procedures, monitoring and evaluation. A specific TO would be developed for this purpose as part of the diagnostic evaluation TO.

Table III-2. Training Curriculum

Course	Content
Microfinance "Best Practices"	• Microfinance theory and technology • Profile of the microfinance sector • Financial service needs of microenterprises • Profile/responsibilities of credit officials • HR management and incentive systems
Product Development and Marketing	• Client relations • Sector analysis and marketing • Product development • Savings mobilization
Loan Analysis	• Business, financial and cash flow analysis • Credit analysis and risk evaluation • Loan structure and terms • Management and financial accounting
Portfolio Management	• Cost analysis and control · Loan pricing • Delinquency management • Documentation; information management
Control and Follow-up	• Internal control, audit • Early warning system • Loan collections • Performance monitoring
Managing Growth	• Strategic planning, budgeting • Market expansion

Target audience. The transfer of microfinance technology is not of itself sufficient to obtain a long term commitment to servicing the target sector nor will it ensure program sustainability and profitability. Other factors enter into the equation, factors which are not necessarily the responsibility of loan officers. Speaking in very general terms, a successfully run microfinance program is the responsibility of all staff levels in the organization. Senior management plays a vital leadership role as it is responsible for setting the strategy, goals and standards that will govern the work of line management and other employees. Middle management plays the key execution role and must ensure compliance with the policies, procedures and tools developed by the institution. Supervisors must ensure program implementation as well as the high quality and effective performance by the lending officers. Accordingly, it is strongly recommended that training be delivered to four staff categories: directors, managers, supervisors and lending officers.

Training methodology. It is recommended that a variety of training techniques be employed to achieve the desired results (Refer to box at right). The precise mix of techniques will vary between institutions, given that the precise training needs will be a function of the existing institutional capacity of each entity.

Training Techniques

Technique	Purpose
· formal course work	impart basic skills and techniques
· on-the-job training	internalize/supplement course work
· workshops	study relevant subject matter in depth
· observational tours	study successful microlending programs
· operations manual	guide application of the training imparted

Training of trainers. As part of the overall training program, it is highly recommended to establish a training team within each participating institution. These trainers should be skilled in all aspects of microfinance and through their participation in the program well-versed in training delivery techniques. The designated group of trainers should also be equipped to develop, deliver and organize relevant courses as well as budget for training costs.

In addition to the training which will be incorporated into institution-specific TOs, the following two specific training TOs are recommended.

TO 1: Survey of Training Initiatives

To leverage resources and maximize the possibility that the training curriculum utilized by the different institutions and promoted by various donors is compatible, it is recommended that the consultants conduct a survey of training initiatives. In this regard it would be worthwhile to explore the possibility of collaborating with GTZ in the execution of a training feasibility study. It is also important to review the training materials and course modules developed by CGAP and to the extent possible, utilize the developed training materials in French and, as appropriate, work this into the institution-specific training modules to be developed. As part of this TO, the consultants should develop a training program budget and explore options for funding the program (including cost recovery). Estimated time frame: 1 person month (subject to change if the Mission collaborates with GTZ).

TO 2: Functional Literacy Training

There is an urgent need to provide members of the *caisses villageoises* with functional literacy training. If only one member of the group is literate or if the village bank must rely upon a person outside of the group to conduct business, the trust and social cohesion of the group is undermined. The objective of this TO would be to develop a functional literacy and numeracy training program and train trainers to deliver the course. Some work has already be done in this field and the methodology and materials should be utilized as may be appropriate.[10] Estimated time frame: 1 person month.

F. Linkages Between Strategic Objectives

The terms of reference for the assignment requested that our team "recommend forms of linkages between sustainable micro-finance activities and: (1) the Cereals, Livestock and New Opportunities Result Packages and (2) the Youth and Democratic Governance Strategic Objectives, taking into consideration USAID Mali's comparative advantages as well as its strategic plan." It is the conclusion of the team that synergy between the strategic objectives is limited at present given the infancy of the microfinance industry in Mali. The consultants feel that once implementation of the activity has begun, there will be many more opportunities to explore linking the mission's interventions with the other strategic objectives. For the time being, we recommend the mission consider the following general interventions which should be revisited and further explored in the second year of activity implementation:

(Table III follows on page 17)

[10] One such methodology,"TOSTAN" has been developed and applied with success in Senegal.

Table III-3. Potential Areas for Linkages of Strategic Objectives (S.O.s)

SEG Result Cereals, Livestock, New Opportunities: *Contributing towards increased processing, production and trade in selected subsectors*	**S.O. Youth:** *Contributing towards increased survival of youth ages 0-4; increased knowledge age 5-14; and increased productive skills 15-24*	**S.O. Democracy & Governance:** *Contributing towards target community organizations engaging in democratic self-governance & civic action*
POSSIBLE INTERVENTIONS		
· Finance R&D within well established MFIs for new financial products for entrepreneurs in the livestock and cereals sector. R&D should analyze subsectors to: 1) identify the most promising growth sectors and most profitable market channels for them; and 2) analyze market channels to identify niches where microfinance could remove bottlenecks preventing efficiency or new business opportunities · Raise awareness of commercials banks *vis-a-vis* the profitability of livestock businesses · Direct financial services partners to look to cooperatives when considering new retail outlets	· Invite speakers from MFIs to explain the microfinance concept to youth · Introduce tontine savings clubs concept to youth on a pilot basis · Work with well established MFIs too develop new financial products that target youth as clients · Facilitate internships in MFIs	· Target MFIs and community organization in training sessions on governance issues conducted by USAID's implementing agencies · Provide funding for the design of specialized training for the APIM · Collaborate with USAID implementing agencies to gain insight into how credit unions and village banking associations might improve their outreach to women clients

G. Concluding Comments

To conclude this report we present a chart outlining the conceptual approach to the Activity along with a draft Work Plan for Year I initiatives. A few comments are with respect to these tables.

1. USAID/Mali will have determined whether or not it wishes to hire a PSC to manage the Activity, or whether it prefers to out source the responsibility to a contractor who would operate as the resident expert for the umbrella contract. Either approach carries with it advantages and disadvantages with respect to implementation, monitoring, evaluation and costs. Whatever the decision, the critical requirements is that one person be tasked with overall responsibility for Activity implementation.[11]

[11] Chemonics has operated the MicroServe Bolivia umbrella contract with and without a dedicated Activity leader on the ground. Experience shows that progress has been greater, the impact more meaningful and the budget utilization rate greater by working with and through an Activity "leader." In the Bolivia case, that person was a PSC and operated from a base from within the Mission.

The illustrative Year I Work Plan does not make provision for the Mission to identify and hire a PSC, a process which could take up to three months or more. If it is decided to manage the activity through a contractor's resident expert, the procurement process would ensure that the resident expert is on the ground at the start of Year I.

2. The attached work plan should serve as a general guideline for the resident expert. Upon activity mobilization the resident expert will be responsible for developing the scopes for work to carry out the diagnostic assessments. Based on the conclusions reached at the end of the assessment phase the resident expert will finalize the draft work plan. At this time the resident expert will work with individual institutions to design more specific scopes of work. Thereafter, in an effort to ensure institutional commitment to the activity, the institutions will have primary responsibility for developing the scopes of work and the resident expert will provide input and guidance as needed. Over time, and if institutional team leaders are contracted, technical assistance interventions will be developed through collaboration of all three stakeholders: the institution, the team leader and the resident expert. USAID will have ultimate approval of all scopes of work.

3. The main objective in Year I is to deliver a basic program of institutional strengthening and training in core areas relating to sound best practices for financial intermediation in the target microenterprise sector. Our wording is chosen carefully. The capacity building and training will reach far beyond the narrow issue of microfinance best practice techniques. Without solid financial management routines and systems, similar in practice to those required by any financial intermediary, microfinance best practice will never result in a financially viable, sustainable and donor-free operation.

   In Years II and III, it is expected that the training delivered in Year I will be "reinforced" with more advanced formal course work, on-the-job training and focused workshops. Again, each program will be tailored to the requirements of specific institutions. Moreover, it is quite conceivable that not every institution will be prepared for moving on to a higher level of training.

4. During the first month of Year II, an in-depth evaluation of Activity progress must be carried out by the resident expert. This task is critical and lies at the center of the umbrella contract concept. Based upon an objective, comprehensive review of the program, all parties to the Activity should assist in the identification of Year II TOs. We anticipate that these would include some of the following activities:

   - A program to expand outreach in a systematic manner, for the stronger participating financial intermediaries;

   - Expanding the service offerings of the APIM. This would include, inter alia, the development of a data bank and resource center, the delivery of a program of workshops and seminars, and the development of an in-house training unit.

ANNEX A: Work Plan

USAID/MALI MICROFINANCE INITIATIVE IMPLEMENTATION/WORKPLAN	Year 1											
	M1	M2	M3	M4	M5	M6	M7	M8	M9	M10	M11	M12
Project Mobilization	X											
Familiarization	X											
Select Pilot Group of Intermediaries	X	X										
Select Coordinators		X	X									
Conduct Diagnostic Evaluation - Pilot Group				X	X							
Conduct Diagnostic Evaluation - CdeC			X									
Sign Agreements with Partner Institutions						X						
Finalize Individual 6 Month Workplans						X						
Implement Agreed Upon TOs and Program Institutional Strengthening				X	X	X	X	X	X	X	X	X
Conduct Studies												
Analysis of Donor Coordination				X								
Analysis of Legal and Regulatory Framework				X								
Assess Potential Second Tier Operations					X							
Assess Savings Mobilization Techniques							X					
Design/Develop Public Awareness Campaigns					X							
Undertake Training Feasibility Study					X							
Develop Functional Literacy Training Program					X							